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Wingspear Business Reference room  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R8



# *KUMA RESOURCES LTD.*



## *Annual Report 1994*



## KUMA RESOURCES LTD.

### DIRECTORS REPORT TO THE SHAREHOLDERS

Dear Shareholder:

The Directors of Kuma Resources Ltd. are pleased to report that your Company generated an average of \$647,058 per quarter gross cash flow and \$358,679 per quarter net cash flow from oil production during the six months ended September 30, 1994. This level of revenues is approximately double the year ending December 1993.

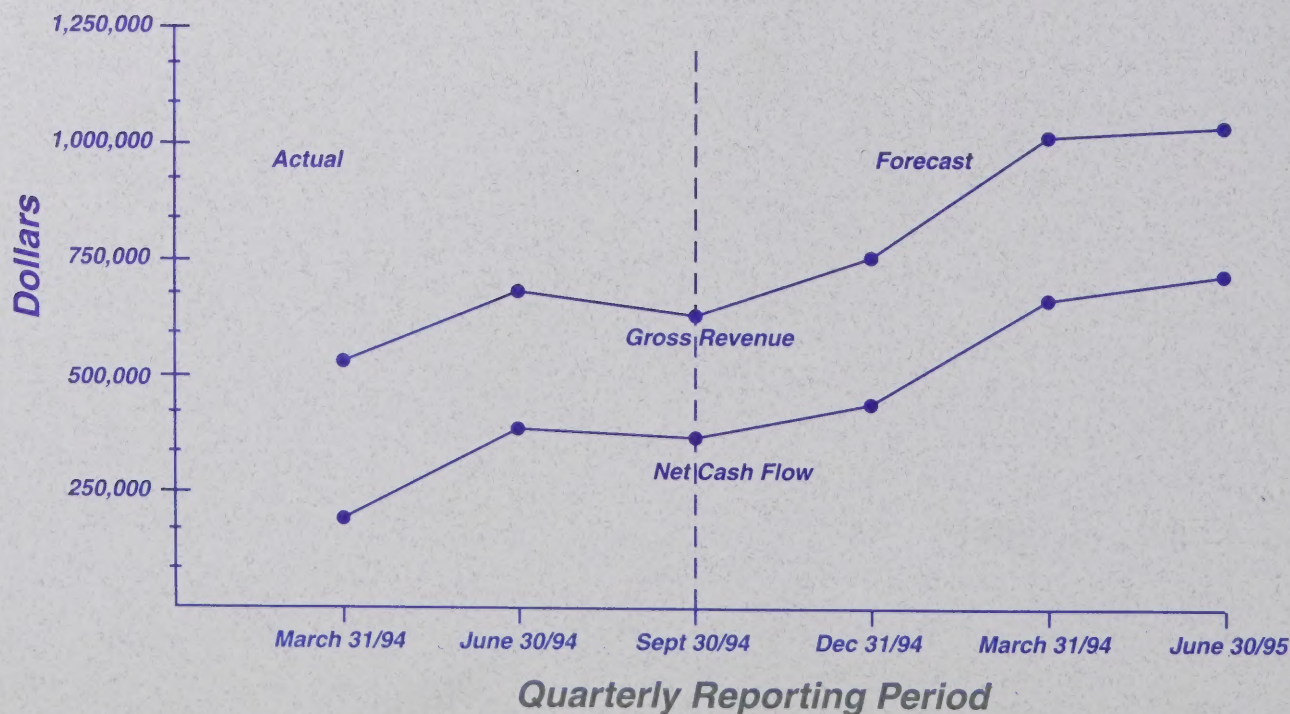
In addition to this revenue the company is proceeding to tie-in 500 mcf per day of natural gas production and has recompleted two additional 100% working interest wells during October. These two new wells are currently being tested and are expected to add significantly to cash flow for this quarter.

#### NEW DRILLING PROGRAM

Kuma is now entering a new phase of growth. While the company is continuing to recomplate existing wells (six more planned this winter) the company has also begun a seismic program which will eventually shoot nine new **drilling** prospects.

Using the new 3 dimensional (3D) seismic as a tool, the company, in a joint venture with Alma Oil & Gas Ltd., intends to drill **five** of these locations this winter. These new wells could possibly produce up to 500 bbls per day or more each. Kuma will retain a 5-15% GOR in these wells converting to a 50% working interest after payout.

### KUMA RESOURCES LTD. Gross and Net Cash Flows - Before Administration and Capital Expenditures



The previous graph Kuma's growth in revenue over the last three quarters and projects future cash flow based upon conservative results for the proposed drilling and recompletions programs of this winter.

The existing income and production rates began half way through the third quarter of the 1994 fiscal year and therefore did not impact the 1994 year end statements as significantly. A reduction in oil prices during the first quarter of this fiscal year has slightly reduced the gross and net cash flows for the first quarter. The two recently recompleted wells, the six proposed recompletions and the winter drilling program, are likely to double again the 1995 fiscal year gross revenue. Fiscal 1995 net cash flows should be approximately 1.7 million dollars or approximately \$0.15 per share. The assumption implicit in this forecast is that Kuma's net production for this fiscal year will be approximately 565 Barrels of oil equivalent per day. This forecast is quite conservative and the drilling results could be much more spectacular than this forecast indicates.

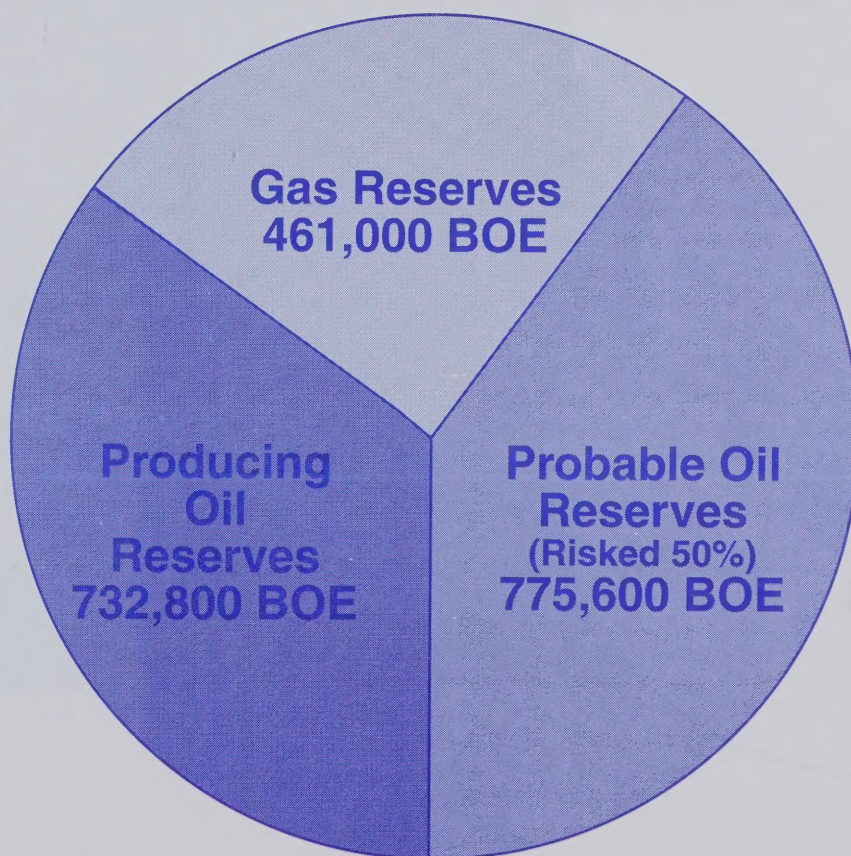
Based upon the completed drilling program of 1995, Kuma expects that the exit production for the calendar year 1995 will be well over 1,000 bbls of oil equivalent per day which is double current production levels.

## KUMA'S RESOURCES LTD. EXISTING RESERVES

Based upon internal reserve estimates, Kuma's established and probable reserves are approximately 2 million barrels of oil equivalent. This pie chart breaks these reserves into established producing oil reserves, probable oil reserves and established gas reserves. The Company's producing reserves represent approximately 40% of the Company's total reserves. The probable reserves have been risked using a 50% risk factor.

Using the industry average of current mergers and sales of reserves of 5 to 6 dollars per barrel, Kuma's reserves are worth 10-12 million dollars. Kuma hopes to continue to increase the percentage of the company's assets which are producing by participating with Alma in the joint venture recompletion and redrill program described in the following material.

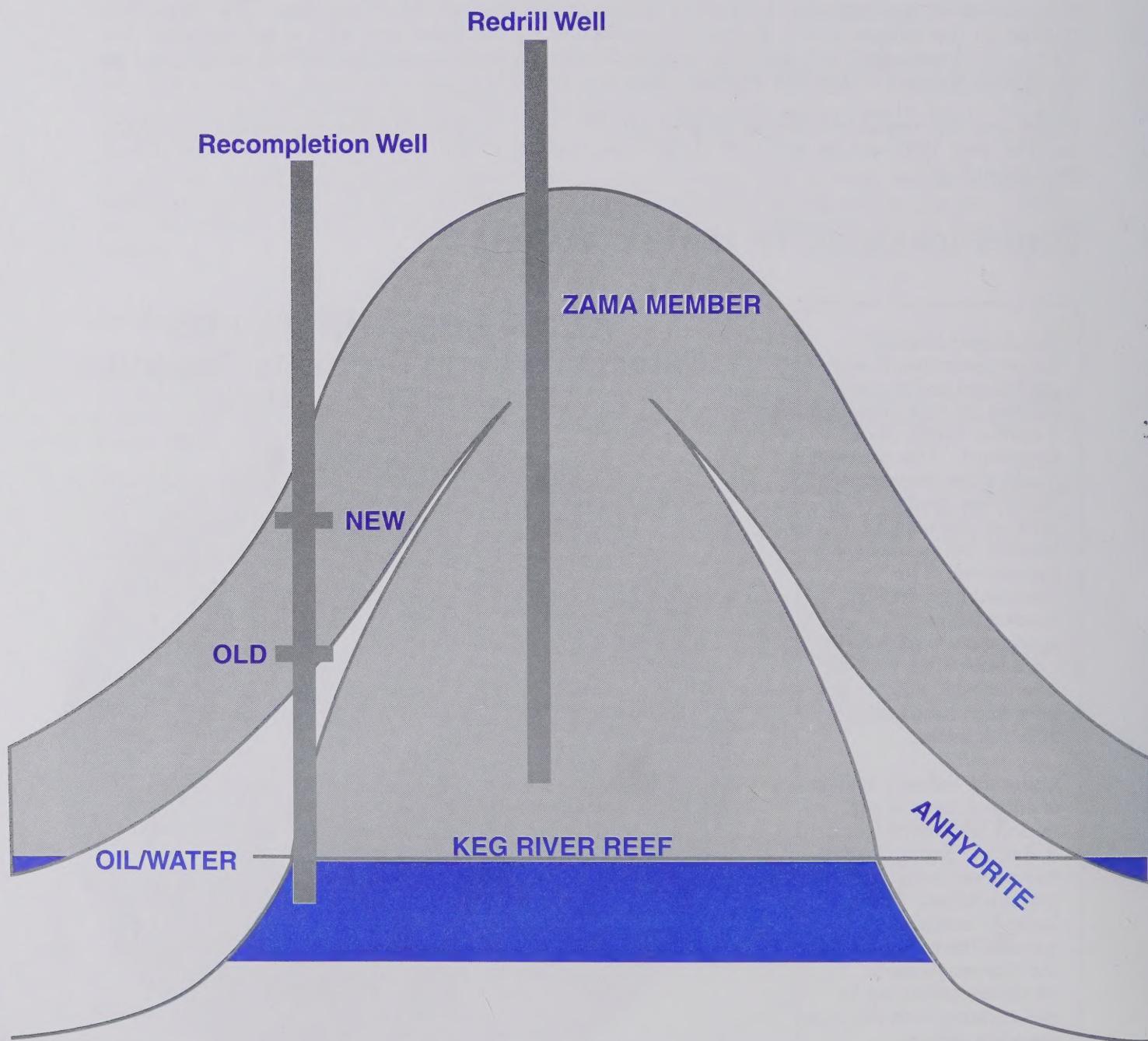
### **KUMA RESOURCES LTD. Established and Probable Reserves (Barrels of Oil Equivalent)**



**Total Kuma Reserves; 1,969,400 Barrels of Oil Equivalent**

# KUMA RESOURCES LTD.

## SCHEMATIC OF REEF STRUCTURE AND REDRILL/ RECOMPLETION STRATEGY



This Recompletion Well has hit the toe of the reef and after recompletion will produce oil from the Zama Member.

The Redrill Well has penetrated the peak of the pinnacle reef and will be able to drain the reef and recover substantially more oil and gas than the original well.

## GAS RESERVES

Recently the Public Utilities Board ruled that Kuma would only receive 2.68 cents per Kwh for the electricity produced by the natural gas cogeneration project in Zama. As a result of this low price Kuma has decided to find alternative markets for its economic reserves of natural gas. To date the company has made an agreement to complete and produce 500 mcf/day of gas from current reserves. Other negotiations are underway to optimize the rest of the Company's gas reserve base. Currently as much as 1/4 of the company's asset base is in natural gas reserves.

## RECOMPLETION AND REDRILL PROJECTS

The schematic chart depicts the recompletion and redrill concept which Kuma is pursuing. The recompletion well on the left is typically a well which has produced before from a known oil zone. The goal of Kuma is to shut down old perforations which may have been producing water, (noted as OLD on the schematic) and reperfurate into untapped new oil pay.

Kuma's redrill concept is based upon the advances in the technology of 3 dimensional (3D) seismic. Using 3D seismic the peak of old oil reefs can now be more accurately identified. Kuma's program involves shooting 3D seismic over reefs which Kuma already owns, to identify the peak location, and redrill a new well which will drain the entire reef. The redrill prospects are likely to produce at higher rates and over longer periods of time than the Company's existing recompletions.

The nine redrill prospects and the six recompletion prospects are shown on the following map of the Zama Region of Northern Alberta.

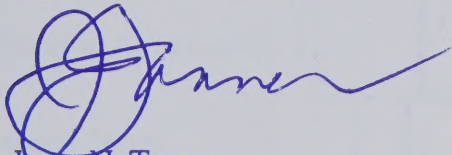
## FUTURE PROJECTS

The Alma joint venture program will provide Kuma with the financial support required to optimize the Company's current reserve base by drilling and recompleting eleven more wells.

Currently Kuma is investigating future prospects in the Zama region to expand its interest in that area. Kuma expects to further activate its second battery site and also acquire additional properties in the Zama region.

The Directors of Kuma Resources Ltd. are pleased with the Company's success and are looking forward to the active program in store for Kuma this winter.

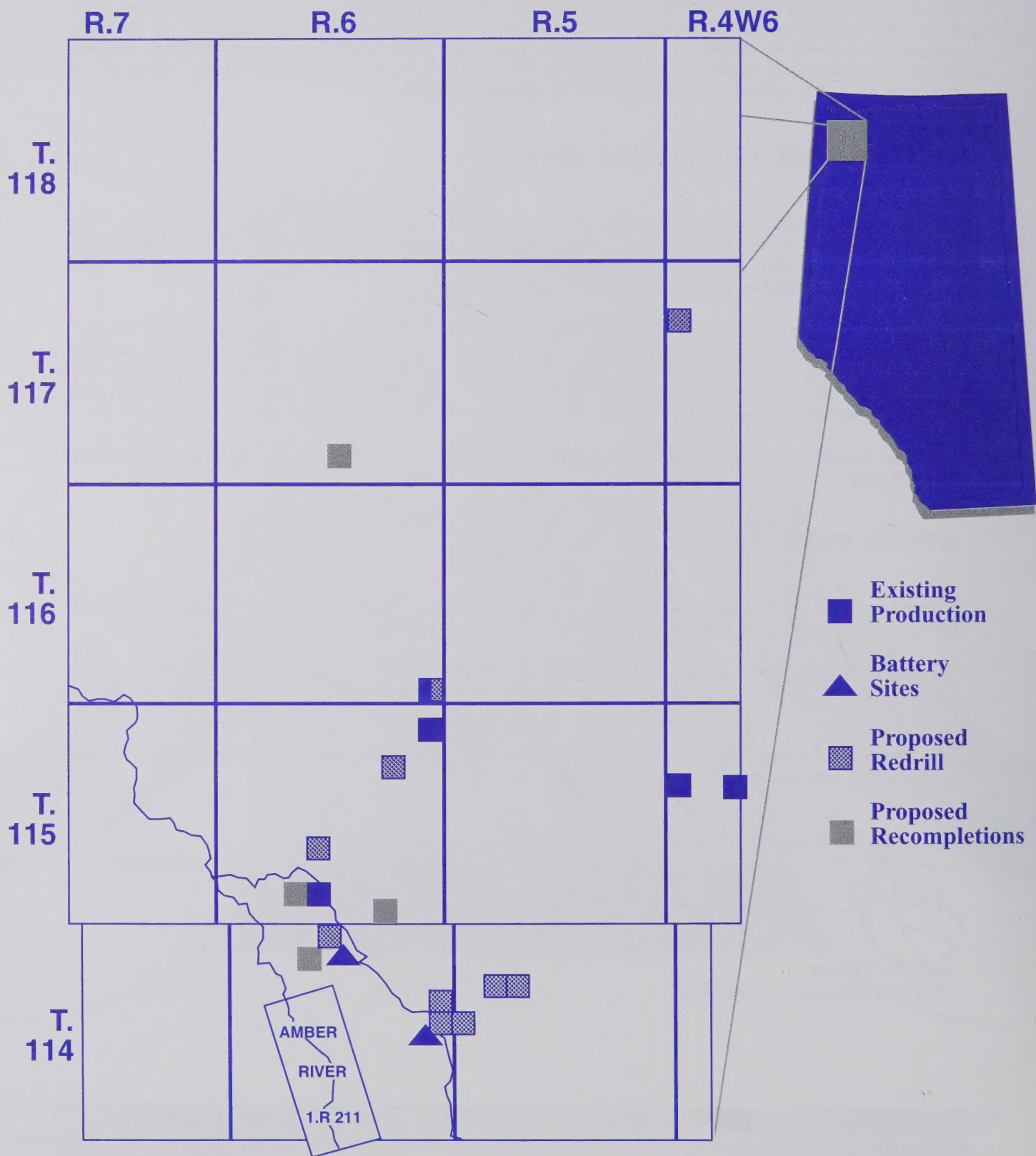
Signed for the Board of Directors



James N. Tanner  
CEO and Chairman of the Board

On behalf of the Company I would like to thank Mr. Jack R. Moore for his contribution to the Company. Mr. Moore has resigned from the Board of Directors and has joined the Board of Directors of Alma Oil & Gas Ltd.

# KUMA RESOURCES LTD. PROJECTS



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**Auditors' Report**

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**To the Shareholders of  
Kuma Resources Ltd.  
(Formerly Tanner Arctic Enterprises Ltd.)**

We have audited the consolidated balance sheet of Kuma Resources Ltd. (formerly Tanner Arctic Enterprises Ltd.) as at June 30, 1994 and the consolidated statements of income and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

**Chartered Accountants**Calgary, Alberta  
October 7, 1994

June 30	1994	1993
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Cash	\$ 406,309	\$ 818,278
Accounts receivable	475,932	137,410
Prepaid expenses	<u>13,847</u>	<u>-</u>
	896,088	955,688

\$ 5,009,516      \$ 4,538,488

**\$ 5,009,516      \$ 4,538,488**

James J. Lair Director

**BDO**  
DUNWOODY  
WARD MALLETT

**Kuma Resources Ltd.**  
**(Formerly Tanner Arctic Enterprises Ltd.)**  
**Consolidated Statement of Income and Deficit**

For the year ended June 30	1994	1993
<b>Revenue, net of royalties</b>	\$ 1,514,652	\$ 685,337
<b>Expenses</b>		
Amortization and depletion	307,430	54,264
Interest on long-term debt	14,564	9,518
Office and general	294,475	172,130
Operating	924,698	490,870
Provision for future restoration and abandonment costs	63,468	38,165
	<u>1,604,635</u>	<u>764,947</u>
<b>Loss from operations</b>	<u>(89,983)</u>	<u>(79,610)</u>
<b>Other income (loss)</b>		
Interest income	25,061	17,672
Other revenue	-	109,000
Loss on write-off of patents and equipment	(78,024)	-
Net loss of an affiliated company accounted for on the equity basis	-	(11,446)
	<u>(52,963)</u>	<u>115,226</u>
<b>Net income (loss) for the year</b>	(142,946)	35,616
Deficit, beginning of year	(2,963,294)	(2,976,910)
Dividends	-	(22,000)
<b>Deficit, end of year</b>	\$ (3,106,240)	\$ (2,963,294)
<b>Earnings (loss) per share</b>	\$ (0.014)	\$ 0.013

The accompanying notes are an integral part of these financial statements.

**Kuma Resources Ltd.**  
**(Formerly Tanner Arctic Enterprises Ltd.)**  
**Consolidated Statement of Changes in Financial Position**

For the year ended June 30	1994	1993
<b>Cash provided (used) by</b>		
<b>Operating activities</b>		
Operations		
Net income (loss) for the year	\$ (142,946)	\$ 35,616
Items not involving cash		
Amortization	307,430	54,264
Provision for future restoration and abandonment costs	63,468	38,165
Loss on write-off of patents and equipment	78,024	-
Net loss of affiliated company accounted for on the equity basis	-	11,446
	<u>305,976</u>	<u>139,491</u>
Changes in non-cash working capital balances		
Accounts receivable	(338,522)	31,497
Prepaid expenses	(13,847)	-
Accounts payable	(38,834)	96,202
	<u>(85,227)</u>	<u>267,190</u>
<b>Financing activities</b>		
Repayment of long-term debt	(231,433)	(179,841)
Issue of common shares	889,144	2,826,898
Dividends	-	(22,000)
	<u>657,711</u>	<u>2,625,057</u>
<b>Investing activities</b>		
Acquisition of subsidiaries, net of cash of \$4,388	-	(2,124,342)
Purchase of investments	-	(1,901)
Purchase of petroleum and natural gas properties	(908,386)	(52,094)
Proceeds on sale of capital assets	-	18,625
Addition to deposit re abandonment costs	(19,672)	(17,649)
Change in accounts payable related to investing activities	(56,395)	-
	<u>(984,453)</u>	<u>(2,177,361)</u>
<b>Increase (decrease) in cash</b>	<b>(411,969)</b>	<b>714,886</b>
Cash, beginning of year	<u>818,278</u>	<u>103,392</u>
<b>Cash, end of year</b>	<b>\$ 406,309</b>	<b>\$ 818,278</b>

The accompanying notes are an integral part of these financial statements.

**Kuma Resources Ltd.**  
**(Formerly Tanner Arctic Enterprises Ltd.)**  
**Notes to Consolidated Financial Statements**

**June 30, 1994**

**1. Corporate Name Change**

On August 1, 1993, the Company changed its name from Tanner Arctic Enterprises Ltd. to Kuma Resources Ltd.

**2. Significant Accounting Policies**

The following is a summary of significant accounting policies of the Company:

(a) Principles of consolidation

The financial statements include the accounts of the Company and its wholly owned subsidiary company, Zama Production Ltd. All significant intercompany accounts have been eliminated upon consolidation.

(b) Business combination

On June 24, 1993, Tanner Arctic Enterprises Ltd. ("Tanner"), Baloil Resources Ltd. ("Baloil") and Zama Production Ltd. ("Zama") entered into a plan of arrangement which was approved by regulators and shareholders.

As a result of this transaction, Baloil acquired control of Tanner, referred to as a "reverse takeover". The acquisition by Baloil was accounted for using the purchase method of accounting. Consequently, the prior years' historical financial information contained herein relates only to Baloil prior to the date of the reorganization.

Under the terms of the reorganization, Tanner issued, in addition to its outstanding 2,637,127 common shares, 2,612,043 Tanner common shares for all 10,853,038 Baloil common shares, 481,348 Tanner common shares for 20,000 Baloil first preferred series B shares, 962,696 Tanner common shares for 4,000,000 Baloil special warrants, 577,618 Tanner common shares for 2,400,000 Baloil "flow through" special warrants and 1,359,528 Tanner common shares for all 90 Zama common shares.

Had the reorganization taken place on July 1, 1992, the condensed Statement of Income and Proforma Statement of Income for the year ended June 30, 1993 would have been as follows:

	<u>Actual</u>	<u>Additional</u>	<u>Proforma</u>
Revenue, net of royalties	\$ 703,009	\$ 575,153	\$ 1,278,162
Expenses	667,393	533,970	1,201,363
Non-controlling interest	<u>-</u>	<u>4,746</u>	<u>4,746</u>
Net income for the year	\$ 35,616	\$ 45,929	\$ 81,545

June 30, 1994

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## 2. Significant Accounting Policies - (Continued)

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### (c) Petroleum and natural gas properties

The Company follows the full cost method of accounting for its petroleum and natural gas properties, where all costs related to the exploration for and development of oil and gas reserves are capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities. Proceeds on minor property disposals are credited to the net book value of the property and equipment. Gains and losses are not recognized upon disposition of petroleum and natural gas properties unless such disposition would significantly alter the rate of amortization and depletion.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed the estimated future net revenues from production of proven reserves, at prices and operating costs in effect at the year end, plus the lower of cost and estimated fair market value of unevaluated properties. The test also provides for future administrative overhead, financing costs, future site restoration costs and income taxes.

Depletion of petroleum and natural gas properties and depreciation of production equipment are provided on the unit-of-production method based on total proven reserves before royalties as estimated by an engineer.

### (d) Mineral properties and deferred costs

Costs of acquisition and development of mining properties are capitalized on an area of interest basis. Amortization of these costs will be on a unit-of-production basis, based on estimated proven reserves of minerals of the areas should such reserves be found. If an area of interest is abandoned or management has indicated that further development appears unlikely, the costs thereto will be charged to income in the year of abandonment.

### (e) Joint venture operations

Substantially all of the Company's oil and gas exploration and production activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

### (f) Capital assets

Capital assets are stated at cost, less accumulated amortization. Amortization rates and methods are as follows:

Furniture and fixtures	- 20% declining balance
Computer equipment	- 30% declining balance

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June 30, 1994

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## **2. Significant Accounting Policies - (Continued)**

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(g) Future abandonment and site restoration costs

Estimated future abandonment and site restoration costs, net of salvage values, are provided for using the composite unit-of-production method based upon estimated proven reserves. The estimated future abandonment and site restoration costs provision is recorded as a liability. Payment for such costs will be charged against the liability.

(h) Foreign currency transactions

Foreign currency accounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. Monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the balance sheet date and the resulting foreign exchange gains and losses are included in income in the current period.

(i) Deferred income tax

The Company records income taxes on the tax allocation basis. Deferred income taxes result primarily from a subsidiary recording capital cost allowance for income tax purposes in excess of amortization and depletion claimed for book purposes.

(j) Flow-through shares

Upon the issue of flow-through shares, the Company records 100% of the petroleum and natural gas property costs in their records. The shares issued are recorded at their purchase price. When the funds received are spent, the tax benefits arising from the transaction are transferred to the holders of the flow-through shares.

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**Kuma Resources Ltd.**  
**(Formerly Tanner Arctic Enterprises Ltd.)**  
**Notes to Consolidated Financial Statements**

June 30, 1994

**3. Acquisitions**

Effective June 24, 1993 the Company made the following acquisitions:

(a) Zama Production Ltd. (Note 2(b))

Consideration

1,359,528 common shares \$ 692,000

Reorganization cost 47,216

739,216

The acquisition has been accounted for  
by the purchase method as follows:

Current assets 4,016

Capital assets 220,684

224,700

Current liabilities (34,763)

Long-term debt (43,169)

Deferred income tax (41,179)

105,589

Excess of cost of acquisition over book value of  
the net assets acquired from Zama Production Ltd.

\$ 633,627

The excess cost was capitalized to petroleum and natural gas properties.

(b) Tanner Arctic Enterprises Ltd. (Note 2(b))

Consideration

2,637,127 common shares \$ 1,342,298

Reorganization cost 47,216

1,389,514

The acquisition has been accounted for  
by the purchase method as follows:

Current assets 39,980

Capital assets 283,690

323,670

Current liabilities (37,317)

Long-term debt (181,932)

104,421

Excess of cost of acquisition over book value of  
the net assets acquired from Tanner Arctic Enterprises Ltd.

\$ 1,285,093

The excess cost was capitalized to petroleum and natural gas properties.

**Kuma Resources Ltd.**  
**(Formerly Tanner Arctic Enterprises Ltd.)**  
**Notes to Consolidated Financial Statements**

**June 30, 1994**

**4. Deposit re Abandonment Costs**

As a condition of the purchase of certain oil and gas properties, the Company was required to make payments into a trust fund administered by the Energy Resources Conservation Board to finance the eventual abandonment and clean-up of the properties.

The Company originally committed to making payments totaling \$967,544, however, payment requirements over and above those already made to June 30, 1991 were waived in November 1991. Interest on the deposit is accrued annually and included in the trust fund.

**5. Property and Equipment**

**1994**

**1993**

	<b>Cost</b>	<b>Accumulated Amortization &amp; Depletion</b>	<b>Net Book Value</b>	<b>Net Book Value</b>
Petroleum and natural gas properties	\$ 4,574,750	\$ 933,202	\$ 3,641,548	\$ 3,039,044
Patent	-	-	-	37,800
Mineral properties	79,538	-	79,538	79,538
Furniture, fixtures and computer equipment	63,434	47,362	16,072	69,820
	<b>\$ 4,717,722</b>	<b>\$ 980,564</b>	<b>\$ 3,737,158</b>	<b>\$ 3,226,202</b>

**Kuma Resources Ltd.**  
**(Formerly Tanner Arctic Enterprises Ltd.)**  
**Notes to Consolidated Financial Statements**

June 30, 1994

6. Long-term Debt	1994	1993
Note payable to spouse of a director, due on demand, non-interest bearing until demanded, thereafter at 12% per annum. The holder has indicated demand will not be made within the following 12 months. Secured by certain petroleum and natural gas properties	\$ 60,000	\$ 60,000
Shareholder loans, unsecured, due on demand, non-interest bearing until demanded, thereafter at 12% per annum. Shareholders have indicated demand will not be made within the following 12 months	53,348	61,651
Shareholder loans, unsecured, due upon demand, principal of \$69,660 US, plus interest at 14% US per annum. Shareholders have indicated demand will not be made within the following 12 months	96,402	90,385
Convertible debenture, interest at 12% per annum, due on demand, convertible on the basis of 1 common share for each \$.50 of debenture, secured by a floating charge on all company assets. Amount converted October 6, 1993 (Note 8(b))	-	166,000
Shareholder loans, unsecured, due upon demand, non-interest bearing	-	27,609
Note payable to parent of a director, due upon demand, non-interest bearing	-	35,538
	<b>\$ 209,750</b>	<b>\$ 441,183</b>

**7. Non-controlling Interest**

During the year the assets and liabilities of the Company's subsidiary were written-off. Consequently, the non-controlling interest was also eliminated.

**Kuma Resources Ltd.**  
**(Formerly Tanner Arctic Enterprises Ltd.)**  
**Notes to Consolidated Financial Statements**

**June 30, 1994**

**8. Share Capital**

- (a) Authorized  
 50,000,000 voting common shares without nominal or par value

- (b) Issued

Common shares

Issued and outstanding as at  
 June 30, 1993

<u>Shares</u>	<u>Consideration</u>
8,630,360	\$ 6,193,230

Flow-through shares issued  
 through private placement

578,128	250,024
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Issue through private placement  
 (net of issue costs)

1,318,400	468,370
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Conversion of debenture (Note 6)

332,000	166,000
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Employee stock option exercised

<u>25,000</u>	<u>4,750</u>
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Total issued and outstanding as at  
 June 30, 1994

<u>10,883,888</u>	<u>\$ 7,082,374</u>
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- (c) Stock options

At June 30, 1994, the Company had stock options outstanding to certain directors and employees as follows:

50,000 common shares at \$0.19 expiring May 7, 1996  
 575,000 common shares at \$0.52 expiring December 21, 1996

The Company entered into an agreement with an agent to grant an option to purchase up to 300,000 common shares at \$1.00 expiring November 5, 1994, for services in connection with a private placement.

- (d) Share purchase warrants

At June 30, 1994 the Company had 125,000 share purchase warrants outstanding to shareholders to purchase 125,000 common shares at \$0.50 expiring November 5, 1994.

**Kuma Resources Ltd.**  
**(Formerly Tanner Arctic Enterprises Ltd.)**  
**Notes to Consolidated Financial Statements**

**June 30, 1994**

**9. Income Taxes**

The income tax provision differs from the calculated tax obtained by applying the combined Canadian federal and provincial corporate tax rate to the earnings before income taxes. These difference are accounted for as follows:

	<u>1994</u>	<u>1993</u>
Income (loss) before income taxes	\$ (142,946)	\$ 35,616
Corporate tax rates	<u>44%</u>	<u>44%</u>
Calculated income tax provision (recovery)	\$ (62,896)	\$ 15,671
Increase (decrease) in taxes resulting from:		
Non-deductible crown royalties	37,119	50,521
Resource allowance	(146,540)	(107,918)
Amortization and depletion	122,269	23,876
Capital cost allowance	(10,359)	(4,026)
Cumulative eligible capital	(2,222)	-
Non-deductible loss on write-off of patents and equipment	34,330	-
Non-deductible share of affiliates' net losses	-	5,036
Other non-deductible charges	374	47
Provision for site restoration	<u>27,925</u>	<u>16,793</u>
Income tax provision	\$ <u>-</u>	\$ <u>-</u>

The Company has approximately \$2,900,000 of unused tax pools available to be used to offset future taxable income subject to certain restrictions of the Income Tax Act.

**Kuma Resources Ltd.**  
**(Formerly Tanner Arctic Enterprises Ltd.)**  
**Notes to Consolidated Financial Statements**

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June 30, 1994

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**10. Related Party Transactions**

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- (a) During the year, the Company paid consulting fees to a company owned by a director of the Company in the amount of \$46,350 (1993 - \$32,750).
  - (b) During the year, the Company paid a management fee to a company owned by a director of the Company in the amount of \$30,000 (1993 - \$Nil).
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**11. Subsequent Events**

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- (a) Subsequent to the year end the Company issued 1,153,846 common shares at \$0.52 per share through a private placement.
  - (b) Subsequent to the year end the Company entered into a Farmout Agreement with Alma Oil & Gas Ltd. for a six well recompletion program and a five well redrill program. Alma has committed to funding 100% of the two programs up to \$4,500,000 in return for up to 100% of Kuma's working interest in the properties in which Alma participates. Kuma will retain a sliding scale royalty which will convert upon payout into 50% of the working interest. Alma will also earn 50% of Kuma's working interest in gas reserves associated with the redrill prospects.
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**12. Contingency**

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The Company is involved in litigation with a former shareholder concerning a previous settlement. The plaintiff is seeking damages plus interest as deemed appropriate by the Court. The outcome and amount is not determinable at this time, but management is of the belief that a successful claim against the Company is unlikely, therefore no amount has been provided for in the financial statements. Any future settlement will be accounted for as a charge to income in the period in which the settlement occurs.

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**13. Comparative Figures**

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Certain of the prior years' figures have been reclassified to conform to the current year presentation.

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## CORPORATE INFORMATION

Listed : The Alberta Stock Exchange  
Trading Symbol: KUM

### Board of Directors:

James N. Tanner, C.E.O.  
Albert Balasch, President  
William J. Yurko  
James D. Fair  
D. Dwight Eglinski  
Kenneth E. Laird

### Corporate Headquarters:

Suite 901, 610 - 8th Ave. S.W.  
Calgary, Alberta  
T2P 1G5

### Legal Council:

Macleod Dixon  
Calgary, Alberta

### Auditors:

BDO Dunwoody Ward & Mallette  
Calgary, Alberta